

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Davison-Richfield Area Fire Authority	County Genesee
Fiscal Year End June 30, 2007		Opinion Date August 23, 2007		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

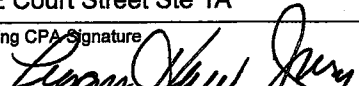
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input type="checkbox"/>	Letter of Comments and Recommendations not issued.	
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Plante & Moran PLLC			Telephone Number 810-767-5350	
Street Address 111 E Court Street Ste 1A			City Flint	State MI
Zip 48502			License Number 1101009025	
Authorizing CPA Signature 		Printed Name Peggy Haw Jury		

**Financial Report**  
**Davison-Richfield Area Fire Authority**  
**Genesee County, Michigan**  
**June 30, 2007**

**Davison – Richfield Area Fire Authority  
Financial Report  
June 30, 2007**

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## **Introductory Section**

**Davison - Richfield Area Fire Authority  
Davison, Michigan  
List of Appointed Officials and Fire Chief**

**Appointed Officials**

Pete Auger	Chairperson
Lisa Holmes	Vice Chairperson
Jim Jacques	Secretary
Kurt Soper	Treasurer
Gerald Masters	
Tim Elkins	
Ron Emery	

**Fire Chief**

Mike Wright

## **Financial Section**



**Plante & Moran, PLLC**

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*Independent Auditor's Report*

Davison – Richfield Area Fire Authority Board  
Davison – Richfield Area Fire Authority  
Davison, Michigan

We have audited the accompanying financial statements of the general fund and governmental activities of the Davison - Richfield Area Fire Authority, Michigan (Authority) as of and for the year ended June 30, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions of the general fund and the governmental activities of the Davison - Richfield Area Fire Authority, Michigan as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Plante & Moran, PLLC*

August 23, 2007

## **Management's Discussion and Analysis**



**Davison – Richfield Area Fire Authority  
Management's Discussion and Analysis  
June 30, 2007**

As management of Davison – Richfield Area Fire Authority (Authority), we offer readers of Davison – Richfield Area Fire Authority's financial statements this narrative overview and analysis of the financial activities of the Authority.

The basic financial statements for the Authority are comprised of the governmental fund balance sheet/statement of net assets, combined statement of revenues, expenditures, and changes in fund balances/statement of activities and notes to the financial statements.

The statement of net assets presents the information of the governmental fund for both the assets and liabilities, with the difference between the two reported as net assets.

The statement of activities presents information showing how the governmental fund's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the governmental fund financial statements.

**Financial Highlights**

The government-wide financial analysis focuses on the Statement of Net Assets and the Statement of Activities. The total assets of the Authority are \$3,105,504 of which \$2,424,825 represents cash, cash equivalents, and investments. The liabilities are \$42,610, which represents amounts due to vendors of \$3,524 and \$39,086 of accrued liabilities, leaving current net assets of \$3,062,894.

Net assets increased \$173,154 for the Authority as a result of \$503,893 in fire protection expenses which are offset by direct charges for services of \$547,310 and general revenues of \$129,737. Charges for services from municipal billings of \$541,610 were generated from fire runs which are charged to the individual participating units based on the location of the fire runs. During the fiscal year ended June 30, 2007, the Authority had a total of 375 runs. 336 of the total runs were billed to the participating units at a per fire run charge of \$1,552; 39 of the total runs were mutual aid/weather runs billed at \$517 per run. The Authority generated inspection income in the amount of \$5,700.

Net assets invested in capital assets amount to \$549,408 leaving unrestricted net assets of \$2,513,486.

Capital assets, net of accumulated depreciation, totaled \$549,408 at June 30, 2007. These assets are depreciated over various lives based on the type of asset. Accumulated depreciation to date is \$1,563,268. Should the Authority ever disband the capital assets are to be allocated based on the contributions made by each participating unit for specific years. These percentages are calculated yearly and are detailed by year in the notes to the financial statements.

The revenue collected for fire runs is allocated as follows: future equipment replacement \$60; future vehicle replacement \$387; and normal operations \$1,105 for regular runs and \$70 for mutual aid/weather runs. Therefore, the majority of the unrestricted net assets are being set aside for future equipment and vehicle expenditures. At June 30, 2007, \$2,169,360 was set aside for future vehicle expenditures and \$263,690 was set aside for future equipment expenditures.

## Government-wide Financial Analysis

### Davison-Richfield Area Fire Authority's Net Assets

Governmental Activities		
	<u>2007</u>	<u>2006</u>
Current and other assets	\$2,556,096	\$2,333,442
Capital assets	<u>549,408</u>	<u>609,320</u>
Total assets	<u>3,105,504</u>	<u>2,942,762</u>
Liabilities	<u>42,610</u>	<u>53,022</u>
Net assets:		
Invested in capital assets	549,408	609,320
Restricted for capital purchases	2,433,050	2,225,460
Unrestricted	<u>80,436</u>	<u>54,960</u>
Total net assets	<u>\$3,062,894</u>	<u>\$2,889,740</u>

### Davison-Richfield Area Fire Authority's Capital Assets-Net of Depreciation

Governmental Activities		
	<u>2007</u>	<u>2006</u>
Alarm equipment	\$ 423	\$ 845
Trucks and vehicles	455,847	512,018
Radio equipment	45,010	31,390
Fire fighting equipment	14,224	18,875
Fire hall equipment	5,772	14,901
Building improvements	23,132	26,291
Building and land	<u>5,000</u>	<u>5,000</u>
Total	<u>\$549,408</u>	<u>\$609,320</u>

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Davison-Richfield Area Fire Authority, assets exceeded liabilities by \$3,062,894.

By far the largest portion of the Authority's net assets (79%) is restricted for capital purchases.

Current and other assets increased \$222,654 from prior year due to excess revenues over expenditures. Capital assets decreased \$59,912 due to the net effect of purchasing capital assets less annual depreciation.

## Davison-Richfield Area Fire Authority's Changes in Net Assets

	<u>2007</u>	<u>2006</u>
Revenues		
Program revenues:		
Charges for services	\$ 547,310	\$ 593,564
General revenues:		
Interest income	103,592	77,657
Miscellaneous income	26,145	8,083
Total revenues	<u>677,047</u>	<u>679,304</u>
Expenses:		
Fire protection	<u>503,893</u>	<u>480,412</u>
Total expenses	<u>503,893</u>	<u>480,412</u>
Increase in net assets	173,154	198,892
Net assets - beginning of the year	<u>2,889,740</u>	<u>2,690,848</u>
Net assets - end of the year	<u><u>\$3,062,894</u></u>	<u><u>\$2,889,740</u></u>

Charges for services increased \$46,254 and are made up of two components; municipal billings and inspection income. Municipal billings decreased \$40,654 due to 31 less runs off set by an increase in the billing rate per run in fiscal year 2007. Inspection income decreased \$5,600. Interest income increased \$25,935 primarily due to a large certificate of deposit maturing in fiscal year 2007.

Fire protection expenses increased \$23,481 primarily due to the purchase of firefighter equipment.

### **Budget**

The budget for 2007 was not amended during the year. The Authority has again produced a timely and balanced budget for 2008.

### **Contacting the Authority's Management**

This financial report is intended to provide our citizens and participating units of government with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, we welcome you to contact the Authority's Treasurer from Davison Township.

## **Basic Financial Statements**

**Davison-Richfield Area Fire Authority**  
**Statement of Net Assets and**  
**Governmental Fund Balance Sheet**  
**General Fund**  
**June 30, 2007**

	General Fund	Adjustments (Note II A)	Statement of Net Assets
<b>Assets</b>			
Cash and cash equivalents	\$ 1,239,031	\$ -	\$ 1,239,031
Investments	1,185,794	-	1,185,794
Accrued interest receivable	450	-	450
Due from other governments	130,361	-	130,361
Deposits	460	-	460
Capital assets, not subject to depreciation	-	5,000	5,000
Capital assets, subject to depreciation	-	544,408	544,408
	<hr/>		<hr/>
Total assets	<b>\$ 2,556,096</b>	549,408	3,105,504
	<hr/>		<hr/>
<b>Liabilities</b>			
Accounts payable	\$ 3,524	-	3,524
Accrued liabilities	39,086	-	39,086
	<hr/>		<hr/>
Total liabilities	42,610	-	42,610
	<hr/>		<hr/>
<b>Fund Balances/Net Assets</b>			
Fund balances:			
Reserved for equipment purchases	263,690	(263,690)	-
Reserved for vehicle purchases	2,169,360	(2,169,360)	-
Unreserved and undesignated	80,436	(80,436)	-
	<hr/>		<hr/>
Total fund balances	2,513,486	(2,513,486)	-
	<hr/>		<hr/>
Total liabilities and fund balances	<b>\$ 2,556,096</b>	-	-
	<hr/>		<hr/>
Net assets:			
Invested in capital assets		549,408	549,408
Restricted for equipment purchases		263,690	263,690
Restricted for vehicle purchases		2,169,360	2,169,360
Unrestricted		80,436	80,436
		<hr/>	<hr/>
Total net assets		<b>\$ 3,062,894</b>	<b>\$ 3,062,894</b>
		<hr/>	<hr/>

*See notes to financial statements.*

**Davison-Richfield Area Fire Authority  
Statement of Activities and  
Governmental Fund Revenue, Expenditures, and  
Changes in Fund Balance  
General Fund  
June 30, 2007**

	General Fund	Adjustment (Note II B)	Statement of Activities
<b>Expenditures/Expenses</b>			
Fire protection	\$ 443,981	\$ 59,912	\$ 503,893
<b>Program Revenues</b>			
Charges for services:			
Municipal billings	541,610	-	541,610
Inspection income	5,700	-	5,700
Total program revenues	547,310	-	547,310
Net program revenue		(59,912)	43,417
<b>Other Revenues</b>			
Interest income	103,592	-	103,592
Miscellaneous	26,145	-	26,145
Total other revenues	129,737	-	129,737
Excess (deficiency) of revenues over expenditures	233,066	(59,912)	173,154
<b>Fund Balance/Net Assets</b>			
Beginning of the year	2,280,420	609,320	2,889,740
End of the year	<u>\$ 2,513,486</u>	<u>\$ 549,408</u>	<u>3,062,894</u>

*See notes to financial statements.*

## **Notes to Basic Financial Statements**

**Davison – Richfield Area Fire Authority**  
**Notes to Financial Statements**  
**June 30, 2007**

**I. Summary of significant accounting policies**

The accounting policies of the Davison – Richfield Area Fire Authority (Authority) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Davison – Richfield Area Fire Authority.

**A. Reporting entity**

The accompanying financial statements present the government and its component units, legally separate entities for which the Authority is considered to be financially accountable. The Authority did not have any component units at June 30, 2007.

The Davison – Richfield Area Fire Authority was formed by an agreement between the City of Davison, Davison Township, and Richfield Township, to operate a fire department on a shared cost basis. The Authority is governed by a seven member board appointed by the governing bodies of the participating members. The agreement provides that each unit will appropriate funds to the Authority based on \$1,552 for each fire run in its jurisdiction and \$517 for each mutual aid fire run/weather call.

In addition, the Board of the Authority is required to submit an annual operating budget to the governing body of each municipality for approval. Any of the members may withdraw from the Authority by giving written notice one year prior to withdrawal. The withdrawing party shall receive a share of the equity of the Authority as provided in the agreement. (See Note IVB for each unit's percentage share of fixed assets.)

The following are the contributions made by the Authority members for the year ended June 30, 2007:

	<u>Total</u>	<u>City of Davison</u>	<u>Richfield Township</u>	<u>Davison Township</u>
Municipal billings	<u>\$541,610</u>	<u>\$104,493</u>	<u>\$151,050</u>	<u>\$286,067</u>

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct* expenses are those that are clearly identifiable with fire protection. *Program revenues* include 1) charges to customers or governments who purchase, use, or directly benefit from fire protection or services, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of fire protection. Other items not properly included among program revenues are reported instead as *general revenue*.



**Davison – Richfield Area Fire Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2007**

**I. Summary of significant accounting policies – (continued)**

**C. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as they are both measurable and available. Revenue is considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Municipal billings associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following governmental fund:

General Fund - The General Fund is the general operating fund of the Authority. It is used to account for all financial resources.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Authority's policy is to first apply restricted resources.

**D. Assets, liabilities, and net assets or equity**

**1. Cash and cash equivalents**

The Authority's cash and cash equivalents include demand deposits and sweep money market funds.

**2. Investments**

Investments are stated at fair value. A certificate of deposit with a maturity date of greater than three months of time of purchase has been recorded as an investment on the financial statements.

**3. Capital assets**

Capital assets, which include land, buildings, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the authority as personal property assets with an initial, individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**Davison – Richfield Area Fire Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2007**

**I. Summary of significant accounting policies – (continued)**

**D. Assets, liabilities, and net assets or equity – (continued)**

3. Capital assets – (continued)

All real property purchased by the Authority must be titled in the name of the Authority and has been included in capital assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Buildings, building improvements, and equipment are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Alarm equipment	5-15
Radio equipment	3-10
Fire hall equipment	5-10
Fire fighting equipment	5-15
Building improvements	10-15
Building	20
Trucks and vehicles	5-20

4. Fund equity

In the fund financial statements, the governmental fund reports reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. There are no designations of fund balance at year end.

5. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Davison – Richfield Area Fire Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2007**

**II. Reconciliation of government-wide and fund financial statements**

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets**

The governmental fund balance sheet includes a reconciliation between *fund balance -total governmental funds* and *net assets -governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The details of this difference are as follows:

Capital assets, net of depreciation	<u>\$549,408</u>
Net adjustment to increase <i>fund balance -total governmental funds</i> to arrive at <i>net assets -governmental activities</i>	<u><u>\$549,408</u></u>

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenue, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances -total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this difference are as follows:

Capital outlay	\$ 25,600
Depreciation expense	<u>(85,512)</u>
Net adjustment to decrease <i>net changes in fund balances -total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u><u>\$ (59,912)</u></u>

**III. Stewardship, compliance, and accountability**

**Budgetary information**

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to May 1, a proposed operating budget is submitted to the Authority Board for the year commencing the following July 1. The operating budget includes proposed expenditures, and the means of financing them, for the General Fund.
2. Public hearings are conducted to obtain taxpayer comments.

**Davison – Richfield Area Fire Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2007**

**III. Stewardship, compliance, and accountability – (continued)**

**Budgetary information – (continued)**

3. After the Authority Board reviews the proposed budget, it is then sent to the three municipalities for their approval. The budget is legally adopted on a fund basis after each municipality submits its approval to the Authority Board.
4. Any revisions to the budget must first be approved by the Authority Board and then by each municipality.
5. Formal budgetary integration is employed as a management control device during the year. Also, the budget is adopted on a basis consistent with generally accepted accounting principles.
6. Budget appropriations lapse at year end.
7. The original budget was not amended during the year.

**IV. Detailed notes on all funds**

**A. Deposits and investments**

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated two banks for the deposit of its funds; JP Morgan Chase and National City. The investment policy adopted by the Board is in accordance with Public Act 196 of 1997 as listed above. The Authority's deposits are in accordance with statutory authority.

The Authority's cash and investments are subject to two different types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Authority had \$1,085,794 of bank deposits (certificates of deposit) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Davison – Richfield Area Fire Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2007**

**IV. Detailed notes on all funds – (continued)**

**A. Deposits and investments – (continued)**

Deposits: – (continued)

Custodial credit risk of investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have a policy for custodial credit risk. At year end, \$1,237,950 of investments were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Authority's name.

**B. Capital assets**

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Capital assets being depreciated:				
Alarm equipment	2,738	-	-	2,738
Trucks and vehicles	1,487,300	-	-	1,487,300
Radio equipment	83,254	24,750	-	108,004
Fire fighting equipment	161,764	-	-	161,764
Fire hall equipment	89,825	850	-	90,675
Building improvements	62,195	-	-	62,195
Building	195,000	-	-	195,000
Total capital assets being depreciated	2,082,076	25,600	-	2,107,676
Less accumulated depreciation for:				
Alarm equipment	(1,892)	(423)	-	(2,315)
Trucks and vehicles	(975,284)	(56,167)	-	(1,031,451)
Radio equipment	(51,864)	(11,131)	-	(62,995)
Fire fighting equipment	(142,889)	(4,651)	-	(147,540)
Fire hall equipment	(74,924)	(9,980)	-	(84,904)
Building improvements	(35,903)	(3,160)	-	(39,063)
Building	(195,000)	-	-	(195,000)
Total accumulated depreciation	(1,477,756)	(85,512)	-	(1,563,268)
Total capital assets being depreciated, net	604,320	(59,912)	-	544,408
Governmental activities capital assets, net	\$ 609,320	\$ (59,912)	\$ -	\$ 549,408

**Davison – Richfield Area Fire Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2007**

**IV. Detailed notes on all funds – (continued)**

**B. Capital assets – (continued)**

Depreciation expense recognized was charged to the fire protection function.

Capital assets allocation:

Effective with the reorganization of the Authority the capital assets purchased through December 31, 1999 are allocated to the participating governments in the following ownership percentages: City of Davison – 18.22%, Richfield Township – 26.00%, and Davison Township – 55.78%. These percentages were calculated based on the contributions to the Capital Improvement Fund from 1984 to 1999.

For the period 2000 and forward the capital assets purchased are to be allocated based on the municipal billings paid by each unit for their fire runs divided by the total fire run income. The ownership percentages for these periods are as follows:

<u>Period Ending</u>	<u>City of Davison</u>	<u>Richfield Township</u>	<u>Davison Township</u>
Six months ended June 30, 2000	22.22%	26.84%	50.40%
Year ended June 30, 2001	16.63	22.98	60.39
Year ended June 30, 2002	20.21	24.74	55.05
Year ended June 30, 2003	19.65	23.02	57.33
Year ended June 30, 2004	20.84	21.60	57.56
Year ended June 30, 2005	19.43	28.63	51.94
Year ended June 30, 2006	19.74	27.83	52.43
Year ended June 30, 2007	19.29	27.89	52.82

**C. Fund balance reserves**

Per the Authority's plan of reorganization, the revenue and expenditures incurred by the General fund are allocated to specific fund balance reserves as detailed below:

	<u>Equipment</u>	<u>Vehicles</u>	<u>Contingency</u>	<u>Total</u>
Beginning balance	\$296,466	\$1,928,994	\$ 54,960	\$2,280,420
Revenue	22,500	145,125	373,985	541,610
Interest income	7,049	95,241	1,302	103,592
Other income	-	-	31,845	31,845
Expenses	(62,325)	-	(381,656)	(443,981)
Ending balances	<u>\$263,690</u>	<u>\$2,169,360</u>	<u>\$ 80,436</u>	<u>\$2,513,486</u>

**Davison – Richfield Area Fire Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2007**

**IV. Detailed notes on all funds – (continued)**

**C. Fund balance reserves– (continued)**

The allocation of fire run revenue by reserve is as follows:

- Equipment reserve revenue is based on the number of runs times \$60.
- Vehicle reserve revenue is based on the number of runs times \$387.
- The balance of fire run revenue, \$1,105 for regular runs and \$70 for mutual aid/weather runs, is allocated to the contingency reserve.

For the year ended June 30, 2007, there was a total of 375 runs. 39 of these runs were mutual aid/weather runs billed at \$517 per run to each unit.

The purpose of each reservation is as follows:

- Equipment - to accumulate funds and replace equipment per an approved budget.
- Vehicle - to accumulate funds and replace vehicles per an approved budget.
- Contingency - to cover regular operating expenses of the Authority. This reserve is not to exceed 20% of the annual operating budget excluding any items expensed through the equipment or vehicle reserves.

**V. Other information**

**A. Retirement plan**

The Authority provides pension benefits to all of its employees through a defined contribution plan effective July 1, 2003. The plan was adopted in-lieu of paying social security. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by the Authority Board, the Township contributes 6.20% in-lieu of social security and also matches employee's mandatory contribution of 3% with a 3% match for a total employer contribution of 9.20%.

The Authority's total payroll during the year was \$213,645. The current year contribution was calculated based on covered payroll of \$212,582, resulting in an employer contribution of \$19,309 and employee contributions of \$6,377. The Authority also continued to pay the Medicare portion of social security to the Internal Revenue Service.

**B. Risk management**

The Authority is exposed to various risks at loss related to property loss, torts, errors and omissions, and employee injuries. The Authority has purchased commercial insurance for coverage of all claims except full time employee unemployment benefits. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The Authority pays unemployment claims on a reimbursement basis.

## **Required Supplementary Information**



**Davison-Richfield Area Fire Authority**  
**Budgetary Comparison Schedule**  
**General Fund**  
**June 30, 2007**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>Revenue</b>				
Municipal billings	\$ 581,972	\$ 581,972	541,610	\$ (40,362)
Inspection income	21,800	21,800	5,700	(16,100)
Interest income	46,550	46,550	103,592	57,042
Other income	250	250	26,145	25,895
Total revenue	650,572	650,572	677,047	26,475
<b>Expenditures</b>				
Current:				
Administrative costs	1,500	1,500	15,192	(13,692)
Professional fees	4,250	4,250	5,030	(780)
Building and grounds	24,515	24,515	11,307	13,208
Department clerk	31,663	31,663	30,543	1,120
Dues, memberships, and subscriptions	3,305	3,305	3,095	210
Fire Authority meetings	1,710	1,710	1,496	214
Insurance	40,513	40,513	39,739	774
Office supplies	3,980	3,980	3,636	344
Special schools and seminars	11,400	11,400	6,060	5,340
Telephone	5,388	5,388	4,764	624
Utilities	13,507	13,507	14,973	(1,466)
Miscellaneous expense	10,125	10,125	10,019	106
Fire prevention	3,500	3,500	3,353	147
Equipment maintenance	6,225	6,225	4,740	1,485
Gas, oil, grease, and etc.	6,225	6,225	6,268	(43)
Labor	256,140	256,140	211,593	44,547
Radio maintenance	500	500	76	424
Vehicle maintenance	11,700	11,700	9,772	1,928
Equipment trust expenses	70,895	70,895	62,325	8,570
Vehicle trust expenses	393,225	393,225	-	393,225
Total expenditures	900,266	900,266	443,981	456,285
Excess (deficiency)of revenue over expenditures	(249,694)	(249,694)	233,066	482,760
<b>Fund Balance- Beginning of year</b>	2,280,420	2,280,420	2,280,420	-
<b>Fund Balance- End of year</b>	<b>\$ 2,030,726</b>	<b>\$ 2,030,726</b>	<b>\$ 2,513,486</b>	<b>\$ 482,760</b>